

**FINAL RECOMMENDATION SUMMARY FORM**

**MULTIFAMILY DEVELOPMENT WORKGROUP**

<b>STRATEGIC ISSUE:</b>		
A. Communicate Policy Objectives and Improve the Public Benefit of Rental Developments Financed or Funded by MSHDA.		
<b>FINAL RECOMMENDATION(S):</b>	<b>ACTION STEPS needed for follow up and implementation:</b>	<b>WHO must be involved in follow-up and implementation:</b>
1. Identify developments financed under the direct lending, pass-through and 9% programs since 1987 that best exemplify achievement of policy objectives and use as examples of successful family, workforce, housing, etc.	Analyze top ten deals identified from various sources (MSHDA, GLCF, MHC).	Marjorie Green, Gary Heidel, Sally Harrison
2. Consider request for proposals (RFP) for MSHDA direct lending programs to target specific Authority goals, evaluating the pros and cons, particularly related to demonstration efforts such as CCRC, Marquis projects, Mixed use in urban areas. Consider a process similar to QAP for direct lending programs after evaluating the results of the DV and Chronic Homeless RFPs.	Create draft RFP for affordable CCRC initiative, using process developed for DV and Chronic Homeless initiatives.	
3. Board members, executive director, and MSHDA staff should attend groundbreakings and grand openings.		
4. Encourage the use of green communities criteria.	<ul style="list-style-type: none"><li>- Train MSHDA and GLCF staff to promote Green Communities grants.</li><li>- Increase funding for matching funds.</li><li>- Offer Green Communities training to</li></ul>	Maryanne Vukonich, John Hundt, Mary Levine, Beth Hunter Marjorie Green Maryanne Vukonich

## FINAL RECOMMENDATION SUMMARY FORM

<p>5. Analyze and compare 9% and Pass-through products with MSHDA direct loan products to evaluate the benefits of MSHDA's site selection criteria and design standards and evaluate the use of subsidy to determine most efficient uses.</p> <p>6. Offer incentives to increase number of supportive housing units, (additional HOME funds, reduced interest rate) at commitment phase when development process is almost completed. Recommend a workgroup with developers, MF Development, and the Supportive Housing Division to assure timely processing.</p> <p>7. Other public benefit ideas:</p>	<p>developers and architects.</p> <p>Obtain GLCF data and compare with MSHDA data.</p> <p>Schedule meeting with Supportive Housing staff, interested developers, Asset Management, and Development staff to discuss process and allocation strategy.</p> <p>Evaluate the need for Native American Housing and develop a setaside or funding program responsive to housing needs.</p> <p>Review and evaluate Section 8 tenant selection criteria to see if modifications are necessary or possible to conform to policy objectives (ELI or preferences, such as homelessness).</p> <p>Survey MSHDA's current portfolio to identify the extent of services being provided in both family and senior housing. Develop a plan to encourage sponsors to increase the level and</p>	<p>Mark McDaniel, Kathy French, Gary Nesbitt</p> <p>Sally Harrison, Marjorie Green</p> <p>Andy Martin, Melissa Patrick, Sue Alward</p> <p>Kathy French, EH representative, Supportive Housing representative</p> <p>Asset Management</p>
---	---	--

**FINAL RECOMMENDATION SUMMARY FORM**

	availability of services linkages.  Support the creation of a Michigan rental housing locator service and develop the necessary linkages with service and other locator systems.	Gary Heidel, MHC
--	--	------------------

**CHALLENGES associated with follow-up and implementation:**

1. Current priorities may be different, so top ten deals of previous era may not provide roadmap for future.
2. RFP:
  - MSHDA lending is typically done through a pipeline process, so developers are not used to competing for tax-exempt financing.
  - Scoring system and funding priorities need to be determined.
  - Most initiatives require additional resources
  - Need research for Native American housing, models for successful supportive housing, identifying and developing relationships to deliver services, etc.

**FINAL RECOMMENDATION SUMMARY FORM**

**WORKGROUP: Multifamily Development**

<b>STRATEGIC ISSUE:</b>		
<p>B. Make MSHDA direct lending programs more attractive to experienced developers so that within 2 years direct lending programs will use \$150 million of bond cap and create or preserve 2,500 or more units annually and within 5 years will be creating or preserving 3,500 or more units annually.</p>		
<b>FINAL RECOMMENDATION(S):</b>	<b>ACTION STEPS needed for follow up and implementation:</b>	<b>WHO must be involved in follow-up and implementation:</b>
<p><b>1. Underwriting Recommendations:</b></p> <p>a). HDO Development: Enhance training opportunities for HDOs, allowing them to handle multiple functions, particularly at the intake phase. Develop a mentoring program with the Michigan Housing Council. Allow HDOs to be effective advocates for a development once it's been accepted, and work with other MSHDA staff as a team to promote timely processing and quality underwriting.</p> <p>b). Design Standards and Review Process:</p>	<p>NDC customized training/certification for rental housing finance required for HDOs in 2006</p> <p>Mentoring program with MHC members in place by June 2006</p> <p>Revise MSHDA underwriting process to focus responsibilities on HDOs with target of September 2006 for implementation.</p> <p>- Consider use of architect certification rather than design review for architects with a proven track record.</p> <p>- Clarify policy regarding delivery of high-speed internet service to residents, accessibility compliance, and the timely handling of design review comments not related to standards.</p>	<p>Rick Laber</p> <p>Dennis Varian, Marjorie Green</p> <p>Ted Rozeboom, Marjorie Green</p> <p>Maryanne Vukonich</p> <p>Maryanne Vukonich</p>

**FINAL RECOMMENDATION SUMMARY FORM**

<p>c). Underwriting Standards and Process:</p>	<ul style="list-style-type: none"><li>- MSHDA-initiated meeting with architects and the Michigan Barrier-free Design Board to clarify accessibility requirements.</li><li>- Increase the objectivity and predictability of MSHDA loan processing, by developing, publishing and following underwriting criteria and standards for marketing, environmental, supportive housing MOUs, and PILOTs.</li><li>- Require stakeholder input into the development of these standards and underwriting criteria in a meaningful and timely manner.</li><li>- Recognize the need to allow adequate notice to the development community of changes in standards and “grandfather” developments in process.</li><li>- Develop a process to evaluate Board-initiated recommendations (analyzing impact and cost implications) prior to implementation.</li><li>- Provide a step-by-step guide to MSHDA direct lending to educate developers and staff and streamline the processing of loan.</li><li>- Formalize two-step underwriting process, plus initial site and preliminary market review by staff. Board approval/ second step.</li><li>- Measure speed of processing applications from intake to closing, with a goal of averaging 6 months or less. Commit to issuance of a MSHDA market, design,</li></ul>	<p>Maryanne Vukonich</p> <p>Ted Rozeboom, Marjorie Green</p>
--	---	--

## FINAL RECOMMENDATION SUMMARY FORM

	<p>environmental, or operating cost review within two weeks of submission of market study, architectural plans, Phase I Environmental, or proposed operating budget.</p> <ul style="list-style-type: none"> <li>- Underwrite the likelihood that deferred developer fee will be paid within 15 years of placed in service date. Reconcile with Asset Management's current CNA practice (see Policy Recommendation 3(a). Consider NCSHA best practices with regard to developer fee and use of C.N.A.</li> <li>- Review early-start process to determine areas to streamline for experienced developers and contractors.</li> </ul>	
<p>d). Blend taxable with tax-exempt bond proceeds to achieve greater efficiency of tax-exempt bond proceeds.</p>	<ul style="list-style-type: none"> <li>- Investigate adequacy of current market analysis methodology for mixed income housing and consider alternatives such as feasibility studies. Conduct post-review of actual rent-up experience and compare to market study to determine areas of improvement.</li> </ul>	<p>Rick Laber, Jeff Sykes</p>
<p>e). Standardize MSHDA forms to assure ease of use by customers, transferability of information between MSHDA divisions/functions, and essential nature of information being collected.</p>	<p>Recommend MSHDA staff position responsible for forms management for the entire agency. No form put on website without approval of forms manager.</p>	<p>Burney Johnson</p>

**FINAL RECOMMENDATION SUMMARY FORM**

<p><b>2. Asset Management/Compliance Recommendations:</b></p> <p>a). Review reporting and policy requirements to reduce costs for MSHDA staff and partners.</p>	<p>Create a joint MSHDA/Development Community committee with the overarching goal of evaluating current reporting requirements and policy to find ways to reduce costs for MSHDA staff and customers. Target for completion within 6 months.</p> <p>This joint committee would conduct two research efforts:</p> <ul style="list-style-type: none"><li>- Create a fact-finding process with developers and management agents facilitated by an independent entity (no MSHDA staff present) to gather input and ideas for taskforce analysis and action.</li><li>- Collect and analyze operating data. The sources of this data would be MSHDA's own database, tax credit investor's databases (such as the Great Lakes Capital Fund), and conventional sources of this information (such as IREM annual updates). Use this data to establish a range of acceptable costs for use in underwriting and budget approval rather than mandating set amounts (such as management fees) to encourage open competitive forces. Analyze the effect of the premium management fees to determine if it is providing incentives that promote best practices and successful developments. Suggest changes as required.</li></ul>	<p>MSHDA senior staff (Asset Management, Development, Legal, and Finance) and Developers and Management Agents</p>
---	---	--

## FINAL RECOMMENDATION SUMMARY FORM

<p>b). Other Asset Management/Compliance recommendations:</p>	<ul style="list-style-type: none"> <li>- Evaluate proposed Asset Management and Compliance policy changes, prior to implementation, to assess cost/benefit/impact on overall portfolio and on underwriting and production, using an internal review process.</li> <li>- Consider other methods of funding potential capital needs identified by CNAs in developments that are within the first 20 years of tax credit affordability and performing adequately. See Policy Recommendation 3(a) regarding refinancing during the term of the loan to free up equity as a potential source of funds to finance capital needs.</li> </ul>	
<p><b>3.Policy Recommendations</b></p> <p>a). C.N.A./Replacement Reserve Policy:</p>	<p>a). Examine allowing for recapitalization/refinancing as alternative to current C.N.A./Replacement Reserve Funding policy, analyzing the financial implications. Consider permitting <i>retroactively</i> the refinancing of all LIHTC developments done under the 80/20, 70/30, HOME Team Advantage and Team programs at 15 years after the placed in service date. Analyze to determine ability to extend affordability or provide additional resident benefits.</p> <p>Use proceeds to, first, fund the replacement reserve per the capital needs assessment,</p>	<p>MSHDA in consultation with development community</p>



## FINAL RECOMMENDATION SUMMARY FORM

	<p>second, retire all or a part of the HOME loan or other soft financing, if any, third, pay balance of any deferred developer fee, and, fourth, facilitate the retirement of the investor.</p> <p>Current policy is that the Authority <i>may</i> permit the refinancing prior to a loan's maturity date or date of permitted refinancing if the development's capital needs justify it. If public policy objectives are preserved and if the bond market (or current bond restrictions) permit it, the owner should be able to plan for a refinancing at about the time when the capital needs of the development significantly increase and the LIHTC compliance period ends.</p>	
b). Alternatives to Extended Rent-up Reserves:	<p>To reduce risk in a soft market, consider underwriting at a 1.15 debt coverage ratio until a milestone is reached (e.g., breakeven operations for 6 months). Re-underwrite at 1.0, 1.05 or 1.10 debt coverage at sustaining occupancy. Use additional loan proceeds to, first, fund the operating assurance reserve at a level equal to a percentage of the mortgage (e.g., 5%), second, if necessary, use proceeds to achieve final closing, third, refund the operating assurance reserve funded by the developer at initial closing and/or use it to reduce the deferred developer fee, and fourth, fund a capitalized replacement reserve.</p>	
c). Encourage Acquisition/Rehabilitation of	<p>To increase the number of units dedicated</p>	

### **FINAL RECOMMENDATION SUMMARY FORM**

Existing Rental Housing:	<p>to extremely low income households (30% of AMI), establish a policy to encourage the acquisition and rehabilitation of well located market rate developments using the TEAM program and the LIHTC. Large developments may accommodate a few households below 30% of AMI. These developments must be purchased at the right price for this to work. Research subsidies or other financial resources to allow targeting to households at 15%AMI, such as project-based vouchers, HOME funds, or preferential interest rates.</p> <p>Consider directing a major portion of resources to the improvement of existing stock, particularly addressing affordability, quality, and units in danger of becoming obsolete, through short-term changes to the QAP and the redirection of other resources, such as HOME.</p> <p>d). Revise (simplify) resale policy or integrate into preservation policy.</p>	
--------------------------	--	--

#### **CHALLENGES associated with follow-up and implementation:**

Time, energy, willingness to change, conflicting priorities, limited resources

**FINAL RECOMMENDATION SUMMARY FORM**

**MULTIFAMILY DEVELOPMENT WORKGROUP**

<b>STRATEGIC ISSUE:</b>		
<p>C. Document the need for rental housing development and preservation, particularly in light of the state's economy (potential loss of pensions, manufacturing jobs, etc.). Determine through this analysis whether additional rental units need to be developed or if resources should be devoted to the improvement of existing stock, both federally assisted and conventionally financed.</p>		
<b>FINAL RECOMMENDATION(S):</b>	<b>ACTION STEPS needed for follow up and implementation:</b>	<b>WHO must be involved in follow-up and implementation:</b>
<p>1. Conduct a statewide housing needs assessment and update it regularly, to determine the need for development and preservation of affordable housing, including data on rent levels, amenities, and product-type. Seek public input as part of the assessment.</p>		MSHDA and market consultants
<p>2. Contract market analysis review for the 9% tax credit program, based on product-type (senior, rural, supportive, family, preservation)</p>	<p>Consider directly contracting for the market analysis for lending programs, rather than having the developer contract for this function. Consider using local movership rates rather than regional</p>	MSHDA Senior staff
<b>CHALLENGES associated with follow-up and implementation:</b>		

**FINAL RECOMMENDATION SUMMARY FORM**

**MULTIFAMILY DEVELOPMENT WORKGROUP:**

<b>STRATEGIC ISSUE:</b>		
D. Create a coordinated Rural Housing Development strategy that recognizes the unique elements of financing, underwriting, operating, and designing rural housing, to serve all rural geographic areas of Michigan.		
<b>FINAL RECOMMENDATION(S):</b>	<b>ACTION STEPS needed for follow up and implementation:</b>	<b>WHO must be involved in follow-up and implementation:</b>
1. Identify and document rural housing needs and issues:	a). Define what qualifies as rural geographic areas.  b). Research databases of housing portfolios in those defined areas and identify the following data points: <ul style="list-style-type: none"><li>• # of units and population served</li><li>• Incomes of residents and household makeup</li><li>• Financing structure-debt, equity, subsidies, owner returns</li><li>• Construction costs</li><li>• Design standards</li><li>• Operating expenses</li><li>• Expiring use restrictions and/or subsidy contract periods</li></ul> c). Use the research results to establish prototypes of what represents rural housing needs and issues.  d). Seek public input to further identify rural housing needs and issues.	MSHDA, MHC, USRD, GLCF as part of an on-going rural housing taskforce.
2. Target resources to identified rural housing needs	a). Consider defining a quantified number of rural geographic areas for resource targeting purposes.  b). Consider the concentration of	

**FINAL RECOMMENDATION SUMMARY FORM**

<p>3. Modify underwriting standards to address unique characteristics of rural rental proposals:</p>	<p>interagency resources (state, federal, FHLB, etc) into these separate geographic areas on a single area basis on a successive funding cycle (i.e. 2 years).</p> <p>c). Consider a more effective use of 9% credits in conjunction with the RHS 538 program.</p> <p>d). Consider more flexible interest rates in rural areas based on income levels and housing need (difficult to develop areas).</p> <p>e). Consider deferment of the some portion of interest on tax-exempt first mortgages and HOME loans.</p> <p>f). Provide rent subsidy from the State (not Section 8 or RA) to rural proposals (i.e. Section 515) to make proposals more competitive for federal funds and to enhance the feasibility of non-Rural Development financed developments.</p> <p>g). Increase the set aside in the QAP for rural development proposals and target increased amount to a geographically targeted rural area for a set period of time (i.e. 2 years).</p> <p>h). Provide incentives or mechanisms to incorporate supportive housing into rural housing developments.</p> <p>a). Review and adjust MSHDA market research standards based on a deeper understanding of the differences that exist in rural areas versus urban areas.</p>	
--	--	--

**FINAL RECOMMENDATION SUMMARY FORM**

<p>4. Provide additional and appropriate technical assistance to rural applicants:</p>	<p>b). Consider financing scattered site developments over several political jurisdictions.</p> <p>c). Eliminate the current site location criteria regarding walkable communities. Reconsider and modify municipal infrastructure requirements.</p> <p>d). Develop criteria that recognize the differences associated with rural areas.</p> <p>Continue and enhance support for training and technical assistance for community-based non-profits involvement in affordable housing planning and development.</p>	
--	--	--

**CHALLENGES associated with follow-up and implementation:**

--